

# **Utah Tax Review Commission**

## **Issues in the Development of an Ideal Sales and Use Tax System**

*June 11, 2007 Draft*

1. Taxation of tangible property
  - a. New vs. used items (should both be taxed?)
  2. Sales of real property (consumption or investment?)
  3. Should tax be imposed on rental of real property
- B. Taxation of services
  1. Definition of services (financial services, medical services, real estate services, professional services)
  2. Which services should be taxed?
  3. To what extent should investment services be taxed? (e.g. a tax on the fee charged by a broker) (As a point of information, the Walker group concluded that taxation of financial services is not administratively feasible)
- C. Retaining exemptions required by the U.S. Constitution, federal statute, or federal case law?
  1. Would the state lose federal funds if the exemption were repealed?
  2. Is the exemption required by the Utah Constitution?
  3. Does the exemption reduce regressivity?
  4. What should be the treatment of inputs to charities or governmental inputs? (To what extent are charities or governmental entities final consumers?)
- D. Definition of inputs
  1. Production inputs
  2. Component parts
  3. Equipment used to assemble the end product
- E. Structure of the exemption
  1. Exemption certificates
- F. Tracking the exemption
  1. Who?
  2. How? (vendor I.D. or reports)
- G. Business outputs will be taxed at point of final consumption
- H. Guiding assumption should be that all inputs are not taxed

- I. Economic development considerations
  - 1. Does the exemption promote economic development by encouraging outside firms to locate companies here and by helping Utah companies remain competitive?
  - 2. Does the exemption remove double taxation?
  - 3. Does the exemption fill an existing temporary need (e.g. helping an infant industry)?
  - 4. Is the amount of tax revenue generated by repealing the exemption greater than the economic benefit (additional jobs, wages, purchases, etc.) that the exemption produces?
  - 5. Other public policy considerations:
    - a. Does the recipient of the tax incentive provide employment compensation payment and benefits sufficient to minimize public dependency?
    - b. To what extent should government social engineer?
  
- A. Sales of real property (consumption or investment?)
  
- B. Collectibles
  
  
  
  
  
  
  
  
  
  
- A. Costs of compliance
- B. Number of tax rates and taxing jurisdictions
- C. Treatment of expensed items
- D. Does the exemption/exclusion exist because the cost of collecting the tax exceeds its yield?
- E. What is the best delivery method for the exemption/exclusion? (e.g. an income tax credit)
- F. Is the exemption/exclusion simple to understand?
- G. Definition of destination
  - 1. The state of Utah or the county, city, or town (taxing jurisdiction)
  - 2. Designated destination for:
    - a. internet sales
    - b. interstate sales
    - c. intrastate sales